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Response to Notice of Inquiry published in Federal Register (February 10, 2003) by the Rural Utilities Service, USDA, regarding Section 306E of the Consolidated Farm and Rural Development Act (CONACT) establishing a revolving loan fund for household water well systems.

Topic 1: Grantees' experience with individual household water systems and the importance of having a staff with both technical and lending experience.

Grantees *should have existing* (vs. non-active) programs and demonstrated knowledge of and experience with household water systems (wells). However, we recommend that instead of limiting technical and lending experience to "staff", we suggest that the agency require grantees' to provide detailed information on technical capacity and describe prior experience with successful lending programs targeted to individual households in rural areas. By using the word "staff" expertise could be established using resumes not by demonstrating experience -- probably not the *intent* of the language as written.

This change would also allow grantees to work with other organizations and local agencies already operating revolving loan funds in rural areas to expand those loan programs to include household wells under this grant program. Working with existing loan programs would also allow for an economy of scale that could result in lower operating costs (charged to this grant program) and provides opportunities for identifying other funds (non-RUS) available through cooperating organizations that could be leveraged for additional loans for household wells.

Topic 2: Requirement that the grantee provides matching funds or that the applicant receives additional priority for providing larger matching funds.

All applicants (grantees) should be required to show matching or leveraged funds and the agency should consider a minimum requirement like 10% of RUS funds requested (received). Leveraged and/or matching funds could be for project operating costs and/or additional loan fund capital.

The federal funds available for this program are limited and successful grantees should be able to contribute part of the cost of the program to broaden its impact.

Topic 3: Percentage of financing allowed and percentage of project costs covered by the borrower.

Rural residents living in isolated rural areas and low-income, minority communities may have the greatest need for this program. Many of them are served by older wells in need of replacement or repair or have no safe drinking water supply. Priority for these loans should be given to low (80% of MNMHI) and very low (75% of MNMHI) rural households. Low and very low-income borrowers would be eligible for 100% loans at 1% for up to \$8,000 with repayment over up to 20 years. Loans to all other eligible borrowers would be limited to 75% of total project costs.

Topic 4: Administrative and servicing fees for eligible grant purposes.

Administrative fees should be limited to 8% of funds awarded to a grantee. If as suggested in Topic 5 RUS uses the Central Servicing Center for servicing loans under this grant program, no additional loan servicing fees would be required.

Topic 5: Servicing Fees

The Central Servicing Center already services loans for other RUS and USDA programs and utilizing this central servicing model could lower the costs to grantees and the federal government under this program and make more of the grant funds awarded available for loans to rural households (vs. administration/servicing).

Topic 6: Inability to obtain financing from other sources

At 1% interest for 20 years, these loan funds should be targeted to low and very low-income rural households as defined by USDA/RUS. With this targeting, it is more likely that borrowers from this program will be rural residents who cannot get financing from other commercial resources. Without this targeting, these funds could be used by those who are eligible for commercial loans (home equity loans, etc) but prefer (vs. need) to access these funds at the lower (1%) interest rate and more favorable term -- 20 years). Because the household wells loan funds are limited (\$1,000,000 in 2004) they should be used only where other financing cannot be identified. This is consistent with other RUS and USDA loan programs where the agency is "the lender of last resort."

Topic 7: Eligible and non-eligible uses for loans

Eligible uses for loans should be limited to actual expenses (up to \$8,000 maximum per loan) directly related to the construction of new household drinking water wells or the rehabilitation of existing household drinking water wells in rural areas. Wells for uses other than to provide potable water for household drinking water are not eligible.